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## Research Update:

# Qatar-Based Doha Bank Assurance Co. LLC Affirmed At 'BBB' After Insurance Criteria Change; Outlook Stable

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## Research Update:

# Qatar-Based Doha Bank Assurance Co. LLC Affirmed At 'BBB' After Insurance Criteria Change; Outlook Stable

## Overview

- Following a review of Qatari insurer Doha Bank Assurance Co. LLC (DBAC) under our revised insurance criteria, we are affirming our 'BBB' ratings on the company.
- The ratings reflect our view of DBAC as a strategically important subsidiary of Doha Bank Q.S.C.
- The ratings also reflect the company's fair business risk profile, based on its small operating scale in a competitive market and underperformance compared with peers, and its lower adequate financial risk profile, supported by its moderately strong capital and earnings.
- The stable outlook reflects our expectation that DBAC's financial risk profile will remain lower adequate, supported by moderately strong capital and earnings.

## Rating Action

On June 27, 2013, Standard & Poor's Ratings Services affirmed its 'BBB' counterparty credit and insurer financial strength ratings on Qatari insurer Doha Bank Assurance Co. LLC (DBAC). The outlook is stable.

## Rationale

The ratings reflect our view of the company's fair business risk profile and its lower-adequate financial risk profile. We derive these assessments from our view of DBAC's less-than-adequate competitive position, based on its limited geographic and product diversity and relatively small operating scale when compared with peers. Despite its moderately strong capital and earnings, its concentrated exposure to the Qatari banking sector weighs on our view of the financial risk profile.

We derive our 'bbb-' anchor for DBAC from the combination of these factors. We then lower the anchor by one notch based on our holistic analysis. This reflects our view of DBAC's sustained underperformance in the market and lack of scale relative to its peers. DBAC's stand-alone credit profile (SACP) is one further notch lower at 'bb', as we consider the combination of the company's weak enterprise risk management (ERM) and fair management and governance as negative for the ratings.

The ratings benefit from three notches of support above the SACP because we view DBAC as a strategically important subsidiary of Doha Bank Q.S.C. (A-/Stable/A-2), which itself benefits from three notches of support, given its high systemic importance to the Qatari banking sector. DBAC benefits from the brand and reputation of its parent, which is one of the largest banks in Qatar and also a major distribution channel for DBAC. We believe DBAC plays an important part in the group's strategy to offer a full range of financial services products to its customer base, and therefore we expect the bank will continue to support DBAC over 2013-2015, even though it represents less than 2% of the group's capital and earnings.

Overall, we believe DBAC's risk exposures are almost entirely concentrated within the Qatari non-life insurance market, which we consider to have intermediate insurance industry and country risk. In our opinion, the market is highly competitive, particularly in commoditized lines such as motor and medical insurance, although product risk in these lines is low. The level of regulatory oversight, though evolving under Qatar Central Bank, currently is weaker than international standards, with little track record of market intervention. Barriers to entry are modest, in our opinion, despite the dominance of the five national companies.

In our view, DBAC's competitive position is less than adequate, as it has limited diversification of its risk exposures in a highly competitive market. The company's operations are relatively modest, in our opinion, in a market dominated by a few larger players that benefit from a stronger competitive position than DBAC. It has a market share of around 2% and modest gross premiums written (GPW) of Qatari riyal (QAR) 92 million. DBAC predominantly writes motor and property risks in Qatar (90% of GPW in 2012). However, we expect the company will be able to grow modestly (around 10%-12% in 2013) now that it can write retail lines and compete for some government-related business. Nonetheless, we expect DBAC will not be able to gain sufficient size or scale over 2013-2015 to generate returns in line with the market. Positively, we believe DBAC's competitive position benefits from its relationship with Doha Bank, through which DBAC sources almost one-half its premium income.

We expect that DBAC's extremely strong capital adequacy will continue to support its moderately strong capital and earnings over 2013-2015, and that the company is sufficiently capitalized for the risks it faces. DBAC's capital base, at QAR129 million in 2012, is relatively small and therefore the company is more vulnerable to single-event losses, in our opinion. Some earnings volatility persists from legacy business, historically written outside of underwriting guidelines. Our base-case expectation is that DBAC's technical performance will show modest profit, with a forecast combined ratio of 96%-99% over 2013-2015, though return on equity and return on revenues are both likely to remain under 5%. This should support DBAC's capital adequacy at the 'AAA' level, in line with our expectations.

In our view, DBAC has a high-risk risk position due to its concentrated exposure to the Qatari financial services sector. Though its investment

strategy appears conservative, with almost 70% of invested assets being held as cash, these deposits are held in only two institutions, which we believe creates material concentration risk.

DBAC's financial flexibility is adequate, in our opinion. DBAC's access to additional sources of financial support stems primarily from its parent, given that it would be unable to access capital markets as a private, wholly-owned subsidiary. However, we note DBAC is unlikely to require additional capital support and has relatively modest liquidity needs.

We consider DBAC's ERM and management and governance to be weaknesses for the ratings. Our weak ERM assessment reflects our belief that historical failings in risk controls have resulted in unprotected risk exposures, which have, in turn, caused earnings volatility and necessitated some strengthening of prior-year reserves. We believe DBAC is taking steps to improve its risk management framework and implement more robust controls, but that these benefits will take time to accrue. DBAC's management and governance is fair, in our opinion. Although a comprehensive strategic planning process exists, achievement of its goals has often taken longer than anticipated, exacerbated by continued management turnover in the last two years.

We regard DBAC's liquidity as exceptional, owing to the strength of available liquidity sources, particularly through its cash-orientated investment portfolio.

## **Outlook**

The stable outlook reflects our expectation that DBAC's financial risk profile will remain lower adequate, supported by moderately strong capital and earnings.

We may raise the ratings if DBAC is able to implement a more robust ERM framework, the benefits of which should reduce earnings volatility, and help manage the company's investment concentration risk. Additionally, we could raise the ratings if sustained operating performance is more in line with that of its local peers.

We might lower the ratings if, contrary to our expectations, DBAC's capital adequacy deteriorates to below the 'A' level according our model, as a result of further earnings volatility from legacy business or unexpected investment losses. Furthermore, any action that would change our view of DBAC's strategic importance to Doha Bank could prompt us to lower the ratings.

## **Rating Score Snapshot**

Financial Strength Rating                      BBB/Stable

SACP	bb
Anchor	bbb-
Business Risk Profile	Fair
IICRA*	Intermediate Risk
Competitive Position	Less than Adequate
Financial Risk Profile	Lower Adequate
Capital And Earnings	Moderately Strong
Risk Position	High Risk
Financial Flexibility	Adequate
Modifiers	-2
ERM And Management	-1
Enterprise Risk Management	Weak
Management And Governance	Fair
Holistic Analysis	-1
Liquidity	Exceptional
Support	+3
Group Support	+3
Government Support	0

\*IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria And Research

### Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

### Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

## Ratings List

Ratings Affirmed

Doha Bank Assurance Co. LLC	
Counterparty Credit Rating	
Local Currency	BBB/Stable/--
Financial Strength Rating	
Local Currency	BBB/Stable/--

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